

FOR RELEASE Sheffield Press, City of Sheffield, Iowa

Lines Murphy & Company, P. L. C., of Osage today released an audit report on the City of Sheffield, Iowa.

The City's receipts totaled \$1,972,313 for the year ended June 30, 2008, an 81 percent increase from 2007. The receipts included \$280,024 in property tax, \$25,552 from charges for service, \$162,722 from operating grants, \$115,575 from Capital Grants, \$60,967 from local option sales tax and \$1,316,698 in debt proceeds. The Sheffield Enterprise Funds receipts equaled \$311,107.

City disbursements for the year totaled \$2,080,189, a 76 percent increase from the prior year, and included \$1,420,066 for capital projects, \$82,674 for public works, \$142,758 for public safety, \$200,844 for culture and recreation and \$158,385 for debt service. Disbursements for the Sheffield Enterprise Funds totaled \$229,181.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

CITY OF SHEFFIELD
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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City of Sheffield

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------|-----------------|---------------------|
| (Before January 2008) | | |
| James Saylor | Mayor | Jan 2008 |
| Shirley Brady | Mayor Pro tem | Jan 2010 |
| Jane Etnier | Council Member | Jan 2008 |
| Pat Mondt | Council Member | Jan 2008 |
| Norene Schwierjohann | Council Member | Jan 2008 |
| Larry Olk | Council Member | Jan 2010 |
| Debra Hartman | Clerk/Treasurer | Indefinite |
| Brian Miller | Attorney | Indefinite |
| (After January 2008) | | |
| Dennis Kingery | Mayor | Jan 2010 |
| Jane Etnier | Mayor Pro tem | Jan 2012 |
| Shirley Brady | Council Member | Jan 2010 |
| Larry Olk | Council Member | Jan 2010 |
| Ken Berding | Council Member | Jan 2012 |
| Norene Schwierjohann | Council Member | Jan 2012 |
| Debra Hartman | Clerk/Treasurer | Indefinite |
| Brent Symens | Attorney | Indefinite |

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's primary government financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Sheffield's management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the primary government financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities. The business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2008 on our consideration of the City of Sheffield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 21 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the

methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheffield's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The financial statements for the four years ended June 30, 2007 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
November 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sheffield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 82.1%, or approximately \$934,000, from fiscal 2007 to fiscal 2008. Operating grants increased approximately \$38,000 and bond proceeds increased \$893,000.
- Disbursements of the City's governmental activities increased 76.4%, or approximately \$901,000, in fiscal 2008 from fiscal 2007. Culture and recreation, debt service and capital projects disbursements increased approximately \$42,000, \$117,000 and \$771,000, respectively.
- The City's total cash basis net assets decreased 5.1%, or approximately \$26,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$15,000 and the assets of the business type activities decreased by approximately \$41,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of primary government financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial

statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$256,000 to \$234,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands) | | |
|---|----------------------|----------------------|
| | Year ended June 30, | |
| | 2008 | 2007 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 25 | \$ 29 |
| Operating grants, contributions and restricted interest | 163 | 125 |
| Capital grants, contributions and restricted interest | 115 | 125 |
| General receipts: | | |
| Property tax | 280 | 275 |
| Local option sales tax | 61 | 40 |
| Grants and contributions not restricted to specific purposes | - | - |
| Unrestricted investment earnings | 4 | 5 |
| Bond and note proceeds | 1,317 | 424 |
| Other general receipts | 7 | 15 |
| Transfers, net | 86 | 100 |
| Total receipts and transfers | <u>\$ 2,058</u> | <u>\$ 1,138</u> |
| Disbursements: | | |
| Public safety | \$ 143 | \$ 140 |
| Public works | 83 | 136 |
| Health and social services | - | - |
| Culture and recreation | 201 | 159 |
| Community and economic development | - | - |
| General government | 75 | 54 |
| Debt service | 158 | 41 |
| Capital projects | 1,420 | 649 |
| Total disbursements | <u>\$ 2,080</u> | <u>\$ 1,179</u> |
| Increase (decrease) in cash basis net assets | \$ (22) | \$ (41) |
| Cash basis net assets beginning of year | <u>256</u> | <u>297</u> |
| Cash basis net assets end of year | <u><u>\$ 234</u></u> | <u><u>\$ 256</u></u> |

The City's total receipts for governmental activities increased by 80.8%, or \$920,000. The total cost of all programs and services increased approximately \$901,000, or 76.4%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from issuing revenue notes for a wastewater treatment project.

The cost of all governmental activities this year was \$2.080 million compared to \$1.179 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the

amount taxpayers ultimately financed for these activities was only \$1.776 million because some of the cost was paid by those who directly benefited from the programs (\$25,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$278,000). Overall the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in 2008 from approximately \$279,000 to approximately \$303,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$341,000 in tax (some of which could only be used for certain programs) \$1,317,000 in note proceeds, and with other receipts, such as interest and general entitlements.

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|----------------------|----------------------|
| | Year ended June 30, | |
| | 2008 | 2007 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 92 | \$ 93 |
| Sewer | 211 | 201 |
| Capital grants, contributions and restricted interest | - | - |
| General receipts: | | |
| Local option sales tax | - | 31 |
| Unrestricted interest on investments | 4 | 5 |
| Bond and loan proceeds | - | - |
| Other general receipts | 4 | - |
| Total receipts | <u>\$ 311</u> | <u>\$ 330</u> |
| Disbursements and transfers: | | |
| Water | \$ 102 | \$ 100 |
| Sewer | 127 | 113 |
| Transfers, net | 86 | 100 |
| Total disbursements and transfers | <u>\$ 315</u> | <u>\$ 313</u> |
| Increase (Decrease) in cash basis net assets | \$ (4) | \$ 17 |
| Cash basis net assets beginning of year | <u>255</u> | <u>238</u> |
| Cash basis net assets end of year | <u><u>\$ 251</u></u> | <u><u>\$ 255</u></u> |

Total business type activities receipts for the fiscal year were \$311,000 compared to \$330,000 last year. The decrease was primarily due to Local Option Sales Tax receipts recorded in business type revenues last year while this year they were included in transfers. The cash balance decreased by approximately \$4,000 from the prior year. Total disbursements and transfers for the fiscal year increased by .1% to a total of \$315,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sheffield completed the year, its governmental funds reported a combined fund balance of \$234,436, a decrease of \$21,431 below last year's total of \$255,867. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$63,239 from the prior year to \$43,977. This decrease was due mainly to revenues being less than operating disbursements.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$22,047 to \$5,135 during the fiscal year. This increase was attributable to timing of the completion of certain road projects for the fiscal year.

- At the end of the fiscal year, the Tax Increment Financing Fund cash balance was \$56,157, an increase of \$4,767 from the previous year due to the sewer project overrun costs being less than the loan that was taken out for them.
- The Debt Service Fund cash balance increased \$9,935 to \$16,838 during the fiscal year. This was due to an increase in transfers during the year.
- During the fiscal year, the Block Grant Fund cash balance decreased \$160, as note proceeds and operating grants didn't cover scheduled disbursements.
- At the end of the fiscal year, the Employee Benefits Fund cash balance was \$25,974, a decrease of \$19,248 from the previous year due to increases in disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$4,774 to \$101,641, due primarily to an increase in operating receipts and Local Option Sales Tax.
- The Sewer Fund cash balance decreased by \$9,293 to \$149,334, due primarily to an increase in operating expenses and transfers.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget three times. The first amendment was approved on January 8, 2008 and resulted in an increase in operating disbursements of \$145,000 related primarily to the wastewater treatment project. The second amendment was approved on May 13, 2008 to provide for additional disbursements in certain City departments. The third amendment was approved on June 3, 2008 to provide for increased bond payments and other unanticipated repairs. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$174,193 less than budgeted. This was primarily due to the City receiving less in intergovernmental, even after the amendment.

Total disbursements were \$96,858 less than the amended budget. The City exceeded the amount budgeted in the general government, debt service and capital project functions for the year ended June 30, 2008.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$1,822,000 in bonds and other long-term debt, compared to approximately \$625,000 last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|-----------------|---------------|
| | June 30, | |
| | 2008 | 2007 |
| General obligation bonds | \$ 140 | \$ 170 |
| Revenue notes | 1,538 | 425 |
| Notes payable | 144 | 30 |
| Total | <u>\$ 1,822</u> | <u>\$ 625</u> |

Debt increased as a result of issuing revenue notes for a wastewater treatment project. In addition, the City borrowed \$134,000 for overruns on the wastewater treatment project.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within

the City's corporate limits. The City's outstanding general obligation and TIF debt of \$140,000 is significantly below its constitutional debt limit of \$2.46 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sheffield's elected and appointed officials consider many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Hartman, City Clerk, P.O. Box 252, City of Sheffield, Iowa 50475.

City of Sheffield

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

| | <u>Disbursements</u> |
|---|----------------------------|
| Functions / Programs: | |
| Governmental activities: | |
| Public safety | \$ 142,758 |
| Public works | 82,674 |
| Health and social services | - |
| Culture and recreation | 200,844 |
| Community and economic development | - |
| General government | 75,462 |
| Debt service | 158,385 |
| Capital projects | 1,420,066 |
| Total governmental activities | <u>\$ 2,080,189</u> |
| Business type activities: | |
| Water | \$ 102,265 |
| Sewer | 126,916 |
| Total business type activities | <u>\$ 229,181</u> |
| Total | <u><u>\$ 2,309,370</u></u> |
| General Receipts: | |
| Property tax levied for: | |
| General purposes | |
| Tax increment financing | |
| Debt service | |
| Local option sales tax | |
| Unrestricted interest on investments | |
| Bond and note proceeds | |
| Miscellaneous | |
| Transfers | |
| Total general receipts and transfers | |
| Change in cash basis net assets | |
| Cash basis net assets beginning of year | |
| Cash basis net assets end of year | |
| Cash Basis Net Assets | |
| Restricted: | |
| Streets | |
| Urban renewal | |

See notes to financial statements.

Exhibit A

| Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|------------------------|---|--|--|-----------------------------|-----------------------|
| Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities | Total |
| \$ 4,350 | \$ 13,030 | \$ - | \$ (125,378) | \$ - | \$ (125,378) |
| - | 79,676 | 115,575 | 112,577 | - | 112,577 |
| - | - | - | - | - | - |
| 15,471 | 70,016 | - | (115,357) | - | (115,357) |
| 830 | - | - | 830 | - | 830 |
| 4,901 | - | - | (70,561) | - | (70,561) |
| - | - | - | (158,385) | - | (158,385) |
| - | - | - | (1,420,066) | - | (1,420,066) |
| <u>\$ 25,552</u> | <u>\$ 162,722</u> | <u>\$ 115,575</u> | <u>\$ (1,776,340)</u> | <u>\$ -</u> | <u>\$ (1,776,340)</u> |
| \$ 91,647 | \$ - | \$ - | \$ - | \$ (10,618) | \$ (10,618) |
| 215,182 | - | - | - | 88,266 | 88,266 |
| <u>\$ 306,829</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 77,648</u> | <u>\$ 77,648</u> |
| <u>\$ 332,381</u> | <u>\$ 162,722</u> | <u>\$ 115,575</u> | <u>\$ (1,776,340)</u> | <u>\$ 77,648</u> | <u>\$ (1,698,692)</u> |
| | | | | | |
| | | | \$ 240,729 | \$ - | \$ 240,729 |
| | | | - | - | - |
| | | | 39,295 | - | 39,295 |
| | | | 60,967 | - | 60,967 |
| | | | 3,792 | 4,278 | 8,070 |
| | | | 1,316,698 | - | 1,316,698 |
| | | | 6,983 | - | 6,983 |
| | | | 86,445 | (86,445) | - |
| | | | <u>\$ 1,754,909</u> | <u>\$ (82,167)</u> | <u>\$ 1,672,742</u> |
| | | | <u>\$ (21,431)</u> | <u>\$ (4,519)</u> | <u>\$ (25,950)</u> |
| | | | 255,867 | 255,494 | 511,361 |
| | | | <u>\$ 234,436</u> | <u>\$ 250,975</u> | <u>\$ 485,411</u> |
| | | | | | |
| | | | \$ 5,135 | \$ - | \$ 5,135 |
| | | | 56,157 | - | 56,157 |
| | | | 16,838 | 5,000 | 21,838 |
| | | | 112,329 | 10,658 | 122,987 |
| | | | 43,977 | 235,317 | 279,294 |
| | | | <u>\$ 234,436</u> | <u>\$ 250,975</u> | <u>\$ 485,411</u> |

City of Sheffield

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2008

| | General | Special Road Use Tax |
|--|-------------|-------------------------------|
| Receipts: | | |
| Property tax | \$ 216,746 | \$ - |
| Tax increment financing collections | - | - |
| Other city tax | 4,901 | - |
| Licenses and permits | 3,165 | - |
| Use of money and property | 3,792 | - |
| Intergovernmental | 42,546 | 79,675 |
| Charges for service | 13,056 | - |
| Special assessments | - | - |
| Miscellaneous | 51,834 | - |
| Total receipts | \$ 336,040 | \$ 79,675 |
| Disbursements: | | |
| Operating: | | |
| Public safety | \$ 123,878 | \$ - |
| Public works | 19,102 | 57,628 |
| Health and social services | - | - |
| Culture and recreation | 192,423 | - |
| Community and economic development | - | - |
| General government | 65,476 | - |
| Debt service | - | - |
| Capital projects | - | - |
| Total disbursements | \$ 400,879 | \$ 57,628 |
| Excess (deficiency) of receipts over (under) disbursements | \$ (64,839) | \$ 22,047 |
| Other financing sources (uses): | | |
| Bond & note proceeds | \$ 7,600 | \$ - |
| Operating transfers in | 19,519 | - |
| Operating transfers out | (25,519) | - |
| Total other financing sources (uses) | \$ 1,600 | \$ - |
| Net change in cash balances | \$ (63,239) | \$ 22,047 |
| Cash balances beginning of year | 107,216 | (16,912) |
| Cash balances end of year | \$ 43,977 | \$ 5,135 |
| Cash Basis Fund Balances | | |
| Restricted | \$ - | \$ - |
| Reserved: | | |
| Debt service | - | - |
| Unreserved: | | |
| General fund | 43,977 | - |
| Special revenue funds | - | 5,135 |
| Capital projects fund | - | - |

See notes to financial statements.

Exhibit B

| Revenue | | | Other | | |
|---------------------|--------------------|-----------------------|---------------------|--------------------|-----------------------|
| Tax | | | Debt | Nonmajor | |
| Increment | Employee | Block | Service | Governmental | Total |
| Financing | Benefits | Grant | | Funds | |
| \$ - | \$ 23,983 | \$ - | \$ 39,295 | \$ - | \$ 280,024 |
| - | - | - | - | - | - |
| - | - | - | - | 60,967 | 65,868 |
| - | - | - | - | - | 3,165 |
| - | - | - | - | - | 3,792 |
| - | - | 115,575 | - | - | 237,796 |
| - | - | - | - | 80 | 13,136 |
| - | - | - | - | - | - |
| - | - | - | - | - | 51,834 |
| <u>\$ -</u> | <u>\$ 23,983</u> | <u>\$ 115,575</u> | <u>\$ 39,295</u> | <u>\$ 61,047</u> | <u>\$ 655,615</u> |
| | | | | | |
| \$ - | \$ 18,880 | \$ - | \$ - | \$ - | \$ 142,758 |
| - | 5,944 | - | - | - | 82,674 |
| - | - | - | - | - | - |
| - | 8,421 | - | - | - | 200,844 |
| - | - | - | - | - | - |
| - | 9,986 | - | - | - | 75,462 |
| - | - | - | 158,385 | - | 158,385 |
| 129,233 | - | 1,290,833 | - | - | 1,420,066 |
| <u>\$ 129,233</u> | <u>\$ 43,231</u> | <u>\$ 1,290,833</u> | <u>\$ 158,385</u> | <u>\$ -</u> | <u>\$ 2,080,189</u> |
| <u>\$ (129,233)</u> | <u>\$ (19,248)</u> | <u>\$ (1,175,258)</u> | <u>\$ (119,090)</u> | <u>\$ 61,047</u> | <u>\$ (1,424,574)</u> |
| | | | | | |
| \$ 134,000 | \$ - | \$ 1,175,098 | \$ - | \$ - | \$ 1,316,698 |
| - | - | - | 129,025 | 19,519 | 168,063 |
| - | - | - | - | (56,099) | (81,618) |
| <u>\$ 134,000</u> | <u>\$ -</u> | <u>\$ 1,175,098</u> | <u>\$ 129,025</u> | <u>\$ (36,580)</u> | <u>\$ 1,403,143</u> |
| \$ 4,767 | \$ (19,248) | \$ (160) | \$ 9,935 | \$ 24,467 | \$ (21,431) |
| 51,390 | 45,222 | - | 6,903 | 62,048 | 255,867 |
| <u>\$ 56,157</u> | <u>\$ 25,974</u> | <u>\$ (160)</u> | <u>\$ 16,838</u> | <u>\$ 86,515</u> | <u>\$ 234,436</u> |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | - |
| - | - | - | 16,838 | - | 16,838 |
| - | - | - | - | - | 43,977 |
| 56,157 | 25,974 | (160) | - | 63,105 | 150,211 |
| - | - | - | - | - | - |

City of Sheffield
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2008

| | Enterprise Funds | | |
|---|--------------------------|--------------------------|--------------------------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 91,647 | \$ 211,189 | \$ 302,836 |
| Miscellaneous | - | 3,993 | 3,993 |
| Total operating receipts | <u>\$ 91,647</u> | <u>\$ 215,182</u> | <u>\$ 306,829</u> |
| Operating disbursements: | | | |
| Business type activities | <u>\$ 102,265</u> | <u>\$ 126,916</u> | <u>\$ 229,181</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>\$ (10,618)</u> | <u>\$ 88,266</u> | <u>\$ 77,648</u> |
| Non-operating receipts (disbursements): | | | |
| Intergovernmental | \$ - | \$ - | \$ - |
| Interest on investments | 3,199 | 1,079 | 4,278 |
| Miscellaneous | - | - | - |
| General obligation bond proceeds | - | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Net non-operating receipts (disbursements) | <u>\$ 3,199</u> | <u>\$ 1,079</u> | <u>\$ 4,278</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ (7,419)</u> | <u>\$ 89,345</u> | <u>\$ 81,926</u> |
| Other financing sources (uses): | | | |
| Operating transfers in | \$ 12,193 | \$ 24,387 | \$ 36,580 |
| Operating transfers out | - | (123,025) | (123,025) |
| Total other financings sources (uses) | <u>\$ 12,193</u> | <u>\$ (98,638)</u> | <u>\$ (86,445)</u> |
| Net change in cash balances | \$ 4,774 | \$ (9,293) | \$ (4,519) |
| Cash balances beginning of year | <u>96,867</u> | <u>158,627</u> | <u>255,494</u> |
| Cash balances end of year | <u><u>\$ 101,641</u></u> | <u><u>\$ 149,334</u></u> | <u><u>250,975</u></u> |
| Cash Basis Fund Balances | | | |
| Reserved for debt service | \$ - | \$ 5,000 | \$ 5,000 |
| Reserved for water deposits | 10,658 | - | 10,658 |
| Unreserved | <u>90,983</u> | <u>144,334</u> | <u>235,317</u> |
| Total cash basis fund balances | <u><u>\$ 101,641</u></u> | <u><u>\$ 149,334</u></u> | <u><u>\$ 250,975</u></u> |

See notes to financial statements.

City of Sheffield

Notes to Primary government Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Sheffield is a political subdivision of the State of Iowa located in Franklin County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sheffield has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Franklin County Assessor's Conference Board and Franklin County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Employee Benefits fund is used to account for property taxes levied for employee benefits.

The Block Grant Fund is used to account for the wastewater treatment facility project.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Sheffield maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the General Government, Debt Service and Capital Projects Funds.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and revenue notes are as follows:

| Year Ending June 30, | General Obligation Bonds | | Revenue Notes | | Total | |
|----------------------------|-----------------------------|-----------|------------------|------------|--------------|------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | \$ 35,000 | \$ 7,700 | \$ 61,000 | \$ 46,140 | \$ 96,000 | \$ 53,840 |
| 2010 | 35,000 | 5,775 | 63,000 | 44,310 | 98,000 | 50,085 |
| 2011 | 35,000 | 3,850 | 65,000 | 42,420 | 100,000 | 46,270 |
| 2012 | 35,000 | 1,925 | 67,000 | 40,470 | 102,000 | 42,395 |
| 2013 | - | - | 69,000 | 38,460 | 69,000 | 38,460 |
| 2014-2018 | - | - | 377,000 | 160,020 | 377,000 | 160,020 |
| 2019-2023 | - | - | 437,000 | 99,990 | 437,000 | 99,990 |
| 2024-2028 | - | - | 399,000 | 30,330 | 399,000 | 30,330 |
| Total | \$ 140,000 | \$ 19,250 | \$ 1,538,000 | \$ 502,140 | \$ 1,678,000 | \$ 521,390 |

The resolutions providing for the issuance of the general obligation bonds include the following provision.

- (a) At the option of the City, the essential corporate purpose bonds issue of April 1, 2001 are subject to redemption and prepayment on any date, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at a price of par plus accrued interest to call date, by giving proper notice.

The resolution providing for the issuance of the sewer revenue notes include the following provision:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer revenue note sinking accounts within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) At the option of the City, the Revenue Bond shall be subject to optional redemption at a price of par plus accrued interest (i) on any interest payment date after the ten (10) year anniversary of the bond issue date.

The City is not in compliance with the provisions of the Sewer Revenue Note resolution.

The City has also entered into the following loan agreements with the United Bank and Trust Company, Sheffield, Iowa:

| | | |
|------------------------------|------------------------|------------------------|
| <u>Date of Loan</u> | <u>3-29-06</u> | <u>3-29-06</u> |
| Original amount | \$20,500 | \$30,000 |
| Interest rate | 6.0% | 6.0% |
| Payment dates | Annual | Annual |
| Payment amount | \$10,250 plus interest | \$10,000 plus interest |
| Maturity date | 4-01-08 | 4-01-09 |
| Number of payments remaining | 0 | 1 |
| Outstanding balance | \$0 | \$10,000 |

| | | |
|------------------------------|-----------------------|------------------------|
| <u>Date of Loan</u> | <u>10-29-07</u> | <u>11-19-07</u> |
| Original amount | \$7,600 | \$134,000 |
| Interest rate | 5.0% | 5.0% |
| Payment dates | Annual | Annual |
| Payment amount | \$7,600 plus interest | \$33,500 plus interest |
| Maturity date | 11-01-08 | 12-01-11 |
| Number of payments remaining | 0 | 4 |
| Outstanding balance | \$0 | \$134,000 |

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$15,177, \$15,154 and \$14,838, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|---------------|
| Vacation | \$2,105 |

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--|--|-------------------|
| General | Special Revenue: Playground Equipment | \$ <u>19,519</u> |
| Special Revenue: Playground Equipment | General | \$ <u>19,519</u> |
| Enterprise: Water | Special Revenue LOST | \$ <u>12,193</u> |
| Enterprise: Sewer | Special Revenue: LOST | \$ <u>24,387</u> |
| Debt Service | Enterprise: Sewer | \$ <u>123,025</u> |
| Debt Service | General | \$ <u>6,000</u> |
| Total | | \$ <u>204,643</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Construction Commitment

As of June 30, 2008, the City had \$44,255 in construction commitments.

(9) Deficit Balance

The Special Revenue, Block Grant Fund had a deficit balance of \$160 at June 30, 2008. The deficit will be eliminated by transfers.

(10) Cemetery Commitment

The City has a cemetery maintenance contract. The remaining commitment due on the contract is \$16,855.

(11) Subsequent Events

The City approved a contract for street improvements not to exceed \$20,000.

City of Sheffield
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2008

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 280,024 | \$ - | \$ - |
| Tax increment financing collections | - | - | - |
| Other city tax | 65,868 | - | - |
| Licenses and permits | 3,165 | - | - |
| Use of money and property | 3,792 | 4,278 | - |
| Intergovernmental | 237,796 | - | - |
| Charges for service | 13,136 | 302,836 | - |
| Special assessments | - | - | - |
| Miscellaneous | 51,834 | 3,993 | - |
| Total receipts | <u>\$ 655,615</u> | <u>\$ 311,107</u> | <u>\$ -</u> |
| Disbursements: | | | |
| Public safety | \$ 142,758 | \$ - | \$ - |
| Public works | 82,674 | - | - |
| Health and social services | - | - | - |
| Culture and recreation | 200,844 | - | - |
| Community and economic development | - | - | - |
| General government | 75,462 | - | - |
| Debt service | 158,385 | - | - |
| Capital projects | 1,420,066 | - | - |
| Business type activities | - | 229,181 | - |
| Total disbursements | <u>\$ 2,080,189</u> | <u>\$ 229,181</u> | <u>\$ -</u> |
| Excess (deficiency) of receipts over (under) disbursements | \$ (1,424,574) | \$ 81,926 | \$ - |
| Other financing sources (uses), net | <u>1,403,143</u> | <u>(86,445)</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | \$ (21,431) | \$ (4,519) | \$ - |
| Balances beginning of year | <u>255,867</u> | <u>255,494</u> | <u>-</u> |
| Balances end of year | <u><u>\$ 234,436</u></u> | <u><u>\$ 250,975</u></u> | <u><u>\$ -</u></u> |

See accompanying independent auditors' report.

| Net | Budgeted Amounts | | Final to Net Variance |
|---------------------|---------------------|---------------------|-----------------------------|
| | Original | Final | |
| \$ 280,024 | \$ 270,992 | \$ 270,992 | \$ 9,032 |
| - | - | - | - |
| 65,868 | 35,685 | 35,685 | 30,183 |
| 3,165 | 2,425 | 2,425 | 740 |
| 8,070 | 22,200 | 22,200 | (14,130) |
| 237,796 | 419,745 | 470,995 | (233,199) |
| 315,972 | 301,500 | 312,500 | 3,472 |
| - | - | - | - |
| 55,827 | 21,418 | 26,118 | 29,709 |
| <u>\$ 966,722</u> | <u>\$ 1,073,965</u> | <u>\$ 1,140,915</u> | <u>\$ (174,193)</u> |
| | | | |
| \$ 142,758 | \$ 150,050 | \$ 167,400 | \$ 24,642 |
| 82,674 | 82,475 | 101,475 | 18,801 |
| - | - | - | - |
| 200,844 | 149,620 | 227,670 | 26,826 |
| - | - | - | - |
| 75,462 | 46,700 | 66,700 | (8,762) |
| 158,385 | 51,550 | 155,683 | (2,702) |
| 1,420,066 | - | - | (1,420,066) |
| 229,181 | 1,500,300 | 1,687,300 | 1,458,119 |
| <u>\$ 2,309,370</u> | <u>\$ 1,980,695</u> | <u>\$ 2,406,228</u> | <u>\$ 96,858</u> |
| | | | |
| \$ (1,342,648) | \$ (906,730) | \$ (1,265,313) | \$ (77,335) |
| | | | |
| <u>1,316,698</u> | <u>1,000,000</u> | <u>1,189,249</u> | <u>127,449</u> |
| | | | |
| \$ (25,950) | \$ 93,270 | \$ (76,064) | \$ 50,114 |
| | | | |
| <u>511,361</u> | <u>591,180</u> | <u>591,180</u> | <u>(79,819)</u> |
| | | | |
| <u>\$ 485,411</u> | <u>\$ 684,450</u> | <u>\$ 515,116</u> | <u>\$ (29,705)</u> |

City of Sheffield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, three budget amendments increased budgeted disbursements by \$425,533. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the General Government, Debt Service and Capital Projects Funds.

City of Sheffield

Statement of Cash Receipts, Disbursements and Changes in
Cash Balances Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

| | Special | | |
|--|------------------------|----------------------------------|------------------------------|
| | Handicap Access | Swimming Pool Improvements | Local Option Sales Tax |
| Receipts: | | | |
| Property tax | \$ - | \$ - | \$ - |
| Tax increment financing | - | - | - |
| Other city tax | - | - | 60,967 |
| License and permits | - | - | - |
| Use of money and property | - | - | - |
| Intergovernmental | - | - | - |
| Charges for service | - | - | - |
| Special assessments | - | - | - |
| Miscellaneous | - | - | - |
| Total receipts | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 60,967</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | \$ - | \$ - | \$ - |
| Public works | - | - | - |
| Health and social services | - | - | - |
| Culture and recreation | - | - | - |
| Community and economic development | - | - | - |
| General Government | - | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Total disbursements | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 60,967</u> |
| Other financing sources (uses): | | | |
| Bond & note proceeds | \$ - | \$ - | \$ - |
| Operating transfers in | - | - | - |
| Operating transfers out | - | - | (36,580) |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (36,580)</u> |
| Net change in cash balances | \$ - | \$ - | \$ 24,387 |
| Cash balances beginning of year | <u>1,500</u> | <u>13,357</u> | <u>19,658</u> |
| Cash balances end of year | <u><u>\$ 1,500</u></u> | <u><u>\$ 13,357</u></u> | <u><u>\$ 44,045</u></u> |
| Cash Basis Fund Balances | | | |
| Restricted | \$ - | \$ - | \$ - |
| Unreserved: | | | |
| Special revenue funds | 1,500 | 13,357 | 44,045 |
| Capital project fund | - | - | - |
| Permanent fund | - | - | - |
| Total cash basis fund balances | <u><u>\$ 1,500</u></u> | <u><u>\$ 13,357</u></u> | <u><u>\$ 44,045</u></u> |

See accompanying independent auditors' report.

Schedule 1

| Revenue | | Permanent | |
|-------------------------|------------------------------|-------------------------------|------------------|
| Playground Equipment | Veterans Memorial Fund | Cemetery Perpetual Care | Total |
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | 60,967 |
| - | - | - | - |
| - | - | - | - |
| - | - | 80 | 80 |
| - | - | - | - |
| - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 80</u> | <u>\$ 61,047</u> |
| | | | |
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 80</u> | <u>\$ 61,047</u> |
| | | | |
| \$ - | \$ - | \$ - | \$ - |
| 19,519 | - | - | 19,519 |
| (19,519) | - | - | (56,099) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(36,580)</u> |
| | | | |
| \$ - | \$ - | \$ 80 | \$ 24,467 |
| - | 4,203 | 23,330 | 62,048 |
| <u>\$ -</u> | <u>\$ 4,203</u> | <u>\$ 23,410</u> | <u>\$ 86,515</u> |
| | | | |
| \$ - | \$ - | \$ - | - |
| - | 4,203 | - | 63,105 |
| - | - | - | - |
| - | - | 23,410 | 23,410 |
| <u>\$ -</u> | <u>\$ 4,203</u> | <u>\$ 23,410</u> | <u>\$ 86,515</u> |

City of Sheffield
Schedule of Indebtedness
Year ended June 30, 2008

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|-----------------------------------|------------------|-------------------|--------------------------------|
| General Obligation Bonds: | | | |
| 2001 Essential Corporate Purpose | 04/01/01 | 5.50% | \$ 310,000 |
| Revenue Notes: | | | |
| Sewer | 02/08/07 | 3.00% | \$ 424,902 |
| General Obligation Notes Payable: | | | |
| Police Car | 03/17/06 | 6.00% | \$ 20,500 |
| Water Meters | 03/18/06 | 6.00% | 30,000 |
| Sewer Project Cost Overrun | 11/19/07 | 5.00% | 134,000 |
| Playground Equipment | 10/29/07 | 5.00% | 7,600 |
| Total | | | |

See accompanying independent auditors' report.

Schedule 2

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| <u>\$ 170,000</u> | <u>\$ -</u> | <u>\$ 30,000</u> | <u>\$ 140,000</u> | <u>\$ 9,350</u> | <u>\$ -</u> |
| <u>\$ 424,902</u> | <u>\$ 1,175,098</u> | <u>\$ 62,000</u> | <u>\$ 1,538,000</u> | <u>\$ 38,132</u> | <u>\$ -</u> |
| \$ 10,250 | \$ - | \$ 10,250 | \$ - | \$ 661 | \$ - |
| 20,000 | | 10,000 | 10,000 | 1,220 | - |
| - | 134,000 | - | 134,000 | - | - |
| <u>-</u> | <u>7,600</u> | <u>7,600</u> | <u>-</u> | <u>139</u> | <u>-</u> |
| <u>\$ 30,250</u> | <u>\$ 141,600</u> | <u>\$ 27,850</u> | <u>\$ 144,000</u> | <u>\$ 2,020</u> | <u>\$ -</u> |

City of Sheffield
Bond and Note Maturities
June 30, 2008

| Year Ending June 30, | General Obligation Bonds | | Revenue Notes | | |
|----------------------------|-------------------------------------|-------------------|-------------------------|--------|------------------|
| | 2001 Essential Corporate Purpose | | Sewer | | |
| | Issued April 1, 2001 | | Issued February 8, 2007 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2009 | 5.50% | 35,000 | 2009 | 3.00% | 61,000 |
| 2010 | 5.50% | 35,000 | 2010 | 3.00% | 63,000 |
| 2011 | 5.50% | 35,000 | 2011 | 3.00% | 65,000 |
| 2012 | 5.50% | 35,000 | 2012 | 3.00% | 67,000 |
| | | | 2013 | 3.00% | 69,000 |
| Total | | <u>\$ 140,000</u> | 2014 | 3.00% | 71,000 |
| | | | 2015 | 3.00% | 73,000 |
| | | | 2016 | 3.00% | 75,000 |
| | | | 2017 | 3.00% | 78,000 |
| | | | 2018 | 3.00% | 80,000 |
| | | | 2019 | 3.00% | 82,000 |
| | | | 2020 | 3.00% | 85,000 |
| | | | 2021 | 3.00% | 87,000 |
| | | | 2022 | 3.00% | 90,000 |
| | | | 2023 | 3.00% | 93,000 |
| | | | 2024 | 3.00% | 96,000 |
| | | | 2025 | 3.00% | 98,000 |
| | | | 2026 | 3.00% | 101,000 |
| | | | 2027 | 3.00% | 104,000 |
| | | | Total | | <u>1,538,000</u> |

| Year Ending June 30, | General Obligation Notes Payable | | | | |
|----------------------------|----------------------------------|--------|-------------------------------|--------|--------|
| | Water Meters | | Sewer Project Cost Overrun | | |
| | Issued March 18, 2006 | | Issued November 19, 2007 | | |
| | Interest Rates | Amount | Interest Rates | Amount | Total |
| 2009 | 6.00% | 10,000 | 5.00% | 33,500 | 43,500 |
| 2010 | | | 5.00% | 33,500 | 33,500 |
| 2011 | | | 5.00% | 33,500 | 33,500 |
| 2012 | | | 5.00% | 33,500 | 33,500 |

See accompanying independent auditors' report.

City of Sheffield

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Years

| | 2008 | 2007 | 2006 | 2005 |
|-------------------------------------|---------------------|---------------------|-------------------|-------------------|
| Receipts: | | | | |
| Property tax | \$ 280,024 | \$ 274,822 | \$ 290,475 | \$ 206,654 |
| Tax increment financing collections | - | 187 | 30,821 | 100,009 |
| Other city tax | 65,868 | 40,098 | 26,772 | 24,780 |
| Licenses and permits | 3,165 | 1,545 | 2,535 | 2,205 |
| Use of money and property | 3,792 | 4,488 | 5,212 | 2,791 |
| Intergovernmental | 237,796 | 243,478 | 215,761 | 115,255 |
| Charges for service | 13,136 | 25,802 | 31,121 | 27,596 |
| Special assessments | - | - | - | - |
| Miscellaneous | 51,834 | 22,789 | 48,674 | 21,004 |
| Total | <u>\$ 655,615</u> | <u>\$ 613,209</u> | <u>\$ 651,371</u> | <u>\$ 500,294</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 142,758 | \$ 140,155 | \$ 182,360 | \$ 109,662 |
| Public works | 82,674 | 136,165 | 306,928 | 94,125 |
| Health and social services | - | - | - | - |
| Culture and recreation | 200,844 | 159,073 | 173,147 | 157,783 |
| Community and economic development | - | - | 115,125 | - |
| General government | 75,462 | 53,568 | 53,630 | 55,496 |
| Debt service | 158,385 | 41,000 | 166,362 | 67,700 |
| Capital projects | 1,420,066 | 649,077 | - | - |
| Total | <u>\$ 2,080,189</u> | <u>\$ 1,179,038</u> | <u>\$ 997,552</u> | <u>\$ 484,766</u> |

See accompanying independent auditors' report.

L **INES MURPHY & COMPANY, P.L.C.**

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Osage, IA 50461-1307

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 14, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Sheffield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Sheffield's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sheffield's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Sheffield's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Sheffield's financial statements that is more than inconsequential will not be prevented or detected by the City of Sheffield's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the primary government financial statements will not be prevented or detected by the City of Sheffield's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08 and II-C-08 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sheffield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Sheffield's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Sheffield's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheffield and other parties to whom the City of Sheffield may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sheffield during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
November 14, 2008

City of Sheffield

Schedule of Findings

Year ended June 30, 2008

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the primary government financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Sheffield

Schedule of Findings

Year ended June 30, 2008

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-08 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-08 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct account.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response – In the future, more care will be exercised when posting transactions.

Conclusion – Response accepted.

- II-C-08 City Financial Management Information - Monthly bank reconciliations are not (including a list of outstanding checks) reconciled to the book balance. An unidentified variance of \$460 existed between the City's annual report and the reconciled bank balance at June 30, 2008.

Recommendation - A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Response - The City will establish a system to reconcile cash and present it to the Council.

Conclusion – Response accepted.

City of Sheffield

Schedule of Findings

Year ended June 30, 2008

II-D-08 Safeguarding of Blank Checks – The City does not have a system to verify that all checks and warrants are accounted for. They have misplaced checks #15053 – 15071.

Recommendation – The City should keep all checks under a secure system. All checks should be accounted for when receiving and distributing.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

City of Sheffield

Schedule of Findings

Year ended June 30, 2008

Part III: Other Findings Related to Statutory Reporting:

III-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the General Government, Debt Service and Capital Projects Funds. The City budgeted for the capital project within business type activities and should have budgeted for it in Capital Projects. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-08 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

III-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-08 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy was noted.

III-H-08 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions except that Sewer Revenue Notes were paid from the City’s Debt Service Fund and should have been paid from the Sewer Reserve per the bond resolution. There is an inadequate amount in the bond sinking reserve. Also, the Water Meter Loan and the Playground Equipment Loan were not paid out of Debt Service Fund.

Recommendation – The City should pay bonds and notes from the fund specified by the bond indenture. A bond sinking reserve should be set up within the Sewer.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

City of Sheffield

Schedule of Findings

Year ended June 30, 2008

III-I-08 Financial Condition – The Special Revenue Block Grant Fund had a deficit balance at June 30, 2008 of \$160.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – The deficit balances will be eliminated.

Conclusion – Response accepted.

III-J-08 Local Option Sales Tax – Local option sales tax was deposited into the General, Water and Sewer Funds. Chapter 384.4 of the Code of Iowa states, in part, that monies collected for the local option sales tax shall be deposited in the Special Revenue Fund.

Recommendation – The City should deposit all revenue from Local Option Sales tax in the Special Revenue Fund. Then monies can be transferred according to their local option sales tax resolution.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-K-08 Outstanding Checks – Unclaimed property per Chapter 556.1(10) of the Code of Iowa has not been reported to the State Treasurer as required.

Recommendation – The City should comply with Chapter 556.1(10) of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

III-L-08 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image for the City, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact the bank and inform them of the requirement.

Conclusion – Response accepted.

City of Sheffield

Required Supplementary Information

Other Supplementary Information

Basic Financial Statements